Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0353	**Title:**	Tax deductibility of gasoline and diesel purchases for individual income taxes
Primary Sponsor:	Laible, Rick	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$65,940	$109,177	$109,177	$109,177
Revenue:				
General Fund	($15,789,931)	($33,181,728)	($33,637,031)	($34,096,981)
Other	$0	$0	$0	$0
Net Impact-General Fund Balance	($15,855,871)	($33,290,905)	($33,746,208)	($34,206,158)

Description of Fiscal Impact: This legislation would provide an individual income tax deduction for motor fuel expenses incurred in nonbusiness use of light vehicles in Montana.

FISCAL ANALYSIS

Assumptions:

1. The proposed legislation provides an individual income tax deduction up to $1,500 ($3,000 for married filing jointly) for motor fuel expenses incurred in the nonbusiness use of light vehicles in Montana. This deduction is not limited to taxpayers who itemize; taxpayers who take the standard deduction can also claim the motor fuel deduction in addition to the standard deduction. The deduction is phased out for taxpayers with adjusted gross income of over $55,000 by reducing the deduction by $100 for each $1,000 over $55,000. Therefore, taxpayers with adjusted gross income over $69,000 ($84,000 if married filing jointly) would not benefit from the deduction.

2. This fiscal note assumes that out-of-state taxpayers will not claim this credit because their fuel expenses are not incurred for personal travel within the state. Therefore, only full-year and part-year resident taxpayers were included in the fiscal impact.
3. The Bureau of Labor Statistics reports that the average expenditure on gasoline and motor oil in 2004 per individual was $1,598. For the purposes of this fiscal note, it is assumed that each taxpayer will claim the full allowable deduction.
4. Using these assumptions, a tax simulation model estimated the impact of the proposed legislation using 2005 taxpayer data as if this legislation was in place during the 2005 tax year. This simulation program estimated that the proposed deduction would have reduced tax liability by $32,714,557 during the 2005 tax year.
5. The estimated cost in 2005 was multiplied by the HJR 2 population growth rates to account for the growth in Montana residents through the fiscal years covered by this fiscal note. The fiscal impact of this legislation before adjusting for vehicle ownership is estimated to be ($33,983,882) in tax year 2007, ($34,451,700) in tax year 2008, ($34,922,790) in tax year 2009, and ($35,400,321) in tax year 2010.
6. Assuming that tax year 2007 revenues are received 47.9% in FY 2008 and 52.1% in FY 2009 (HJR 2) and similarly for the following fiscal years, the fiscal impact of this legislation is estimated to be ($16,278,279) in FY 2008, ($34,207,967) in FY 2009, ($34,677,352) in FY 2010, and ($35,151,527) in FY 2011.
7. Data from the 2000 Census indicate that 6.1% of Montana households do not have a vehicle available. For the purposes of this fiscal note, it is assumed that these households will not claim a deduction. However, vehicle ownership tends to be related to income and the number of drivers, and households without vehicles tend to be lower income or elderly who will pay less or no income tax. Therefore, it is assumed that the impact on the estimated reduction in fiscal year tax liability is half of 6%, or a 3% reduction. Therefore, the net fiscal impact of this legislation is estimated to be ($15,789,931) in FY 2008 (($16,278,279) x (100% - 3%)), and ($33,181,728) in FY 2009, ($33,637,031) in FY 2010, and ($34,096,981) in FY 2011 due to similar adjustments.
8. The Department of Revenue estimated it will require two additional auditors to verify the credit amounts claimed by taxpayers. The two FTE would start midway through FY 2008 and would cost $65,940 in FY 2008 and $109,177 in FY 2009 through FY 2011.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
FTE	1.00	2.00	2.00	2.00
Expenditures:				
Personal Services	$48,642	$97,285	$97,285	$97,285
Operating Expenses	$5,498	$11,892	$11,892	$11,892
Equipment	$11,800	$0	$0	$0
TOTAL Expenditures	$65,940	$109,177	$109,177	$109,177
Funding of Expenditures:				
General Fund (01)	$65,940	$109,177	$109,177	$109,177
TOTAL Funding of Exp.	$65,940	$109,177	$109,177	$109,177
Revenues:				
General Fund (01)	($15,789,931)	($33,181,728)	($33,637,031)	($34,096,981)
TOTAL Revenues	($15,789,931)	($33,181,728)	($33,637,031)	($34,096,981)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($15,855,871)	($33,290,905)	($33,746,208)	($34,206,158)

Effect on County or Other Local Revenues or Expenditures:

1. None.

Long-Range Impacts:

1. The proposed legislation will continue to have negative fiscal impact in future fiscal years not covered by this fiscal note.

Technical Notes:

1. Section 1 (2) reduces the allowable deduction for every $1,000 of adjusted gross income or combined adjusted gross income over $55,000. The legislation does not specify whether the combined adjusted gross income limit should be used for married filing separately taxpayers, who also report combined income on their tax forms. This fiscal note assumes that the combined adjusted gross income limit is only applicable to married filing jointly, which treats married filing separately taxpayers as though they were filing as single taxpayers. This assumption is consistent with the treatment of married filing separately taxpayers for other deductions and credits.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*